

Message Text

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ACTION IO-11

INFO OCT-01 ISO-00 IOE-00 ACDA-05 CIAE-00 INR-07 L-03

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OMB-01 TRSE-00 ABF-01 AF-06 ARA-06 EA-07 EUR-12

NEA-10 SS-15 SP-02 /107 W

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P 121448Z JAN 76

FM USMISSION IAEA VIENNA

TO SECSTATE WASHDC PRIORITY 6890

INFO USERDA GERMANTOWN PRIORITY

C O N F I D E N T I A L SECTION 1 OF 2 IAEA VIENNA 0189

PASS IO/SCT

E.O. 11652: GDS

TAGS: AORG, IAEA

SUBJECT: SAFEGUARDS FINANCING

SUMMARY: ON BASIS OF DISCUSSIONS WITH SPOKESMAN OF
LDC MEMBERS, MISSION RECOMMENDS US SUPPORT FOR NEW
SAFEGUARDS FINANCING ARRANGEMENT WHICH WOULD
FORESTALL A RE-CONVENING OF SAFEGUARDS COMMITTEE
AND STAND A GOOD CHANCE OF REMOVING TROUBLESOME
ISSUE FROM AGENCY DISCUSSIONS FOR NEXT FOUR YEARS.
END SUMMARY.

1. AS ADDRESSEES WILL RECALL, AGENCY'S SYSTEM OF
SAFEGUARDS FINANCING, ADOPTED BY THE GC IN 1971,
AND WHICH SERVES LARGELY TO INSULATE LDC'S FROM
INCREASED ASSESSMENTS RESULTING FROM RISING COST
OF SAFEGUARDS PROGRAM, WAS ORIGINALLY RECOMMENDED
BY THE BOARD OF GOVERNORS (GOV/DEC/66(XIV) ON THE
UNDERSTANDING THAT THE BOARD WOULD AGAIN REVIEW
THE SYSTEM "AT AN APPROPRIATE TIME AFTER 1975."

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2. NOTWITHSTANDING FAVORABLE TREATMENT THEY RECEIVE

UNDER THE PRESENT FINANCING FORMULA, LDC MEMBER STATES ON NUMEROUS OCCASIONS OVER PAST SEVERAL YEARS HAVE MADE IT CLEAR THAT THIS IS NOT GOOD ENOUGH. WHILE LDC SPOKESMAN HAVE RATIONALIZED THEIR DISSATISFACTION WITH RISING SAFEGUARDS COSTS, THEIR FUNDAMENTAL COMPLAINT IS THAT EVERY DOLLAR SPENT ON SAFEGUARDS IS A DOLLAR DENIED THE AGENCY'S TECHNICAL ASSISTANCE PROGRAM. FURTHERMORE, THEY HAVE ARGUED, SAFEGUARDS BENEFIT PRIMARILY THE DEVELOPED COUNTRIES AND THE LDC'S THEREFORE SHOULD NOT BE ASSESSED FOR THEIR COSTS.

3. THE RESULTING DISCONTENT HAS GIVEN RISE TO UN-HELPFUL STATEMENTS AND ATTITUDES REGARDING AGENCY SAFEGUARDS BY A NUMBER OF LDC'S ON VIRTUALLY EVERY OCCASION ON WHICH AGENCY BUDGET AND STAFFING NEEDS ARE DISCUSSED BY BOARD, AND HAVE BEEN ACCOMPANIED BY POINTED REMINDERS THAT TIME FOR REVIEW OF THE PRESENT FINANCING SYSTEM IS AT HAND. MOST RECENT AS WELL AS MOST OMINOUS EXAMPLES WERE STATEMENTS BY PHILIPPINE REP AND OTHERS AT SEPT. 19 BG MEETING (IAEA VIENNA 8064) CALLING FOR RECONVENING OF SAFEGUARDS COMMITTEE TO REVIEW METHOD OF SAFEGUARDS FINANCING, AS WELL AS QUESTION OF SAFEGUARDS ON TRANSFER OF TECHNOLOGY AND REVIEW OF INFCIRC/66/REV. 2. EVEN MORE RECENTLY, WHEN APPROACHED BY UK RESREP (SLATER) FOR SUPPORT OF UK RESOLUTION ON SAFEGUARDS, PHILIPPINE RESREP (SIAZON) REPLIED THAT HE WOULD BE WILLING TO DISCUSS THAT SUBJECT AS SOON AS HE WAS ASSURED OF POSITIVE RESPONSE RE REVIEW OF SAFEGUARDS FINANCING.

4. MISOFFS INITIATED LUNCHEON MEETING WITH SIAZON JANUARY 8 IN ORDER HAVE PRELIMINARY EXCHANGE OF VIEWS THIS SUBJECT. FROM THE WAY THIS EXPLORATORY CONVERSATION DEVELOPED, WE BELIEVE SIAZON AND HIS COLLEAGUES MAY BE PERSUADED TO ABANDON THE RECONVENING OF SAFEGUARDS COMMITTEE IN FAVOR OF THE ADOPTION OF A NEW FORMULA HAVING FOLLOWING FEATURES:
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(A) CONTRIBUTIONS BY MEMBER STATES (NOW 72 AT PRESENT.) ENTITLED TO RELIEF FROM PAYMENTS TO THE SAFEGUARDS PORTION OF THE BUDGET TO BE FROZEN AT THE 1976 LEVEL (SEE TABLE 2 OF GC(XIX)551) THROUGH 1980;
(B) NO STATE BE PERMITTED TO PAY LESS THAN \$1,000 FOR ITS SAFEGUARDS ASSESSMENT (32 STATES OF THE 72 NOW PAY LESS); (C) THIS SYSTEM TO BE RE-EXAMINED IN 1980, PRESUMABLY PRIOR TO THE SECOND NPT REVCON.

5. OBVIOUSLY, THIS WOULD PLACE ADDITIONAL BURDEN ON REMAINING ADVANCED MEMBER STATES (34 AT PRESENT) NOT ENTITLED TO RELIEF. IN REAL TERMS, HOWEVER, IT WOULD AMOUNT TO LITTLE RELATIVE CHANGE FROM BURDEN THEY ARE NOW CARRYING. THESE MEMBER STATES ARE NOW PAYING 95 PERCENT (6.5 MILLION) OF THE SAFEGUARDS COMPONENT OF THE 1976 AGENCY BUDGET. THE OTHER 72 NOW PAY ONLY \$353,000. EVEN IN THE EVENT THAT THE SAFEGUARDS COMPONENT OF BUDGET WERE TO DOUBLE BETWEEN NOW AND 1980, TOTAL ADDITIONAL ANNUAL AMOUNT WHICH, SOLELY BY VIRTUE OF THE FREEZE WOULD HAVE TO BE BORNE BY THE 34 ADVANCED STATES WOULD BE ABOUT \$350,000, AN AMOUNT WHICH WOULD HARDLY REPRESENT A CRIPPLING INCREMENT TO THE NORMAL ANNUAL INCREASES IN ASSESSMENTS OF THOSE 34 STATES TO SAFEGUARDS PORTIONS OF BUDGET DUE TO INCREASED SAFEGUARDS COSTS.

6. AS DEPARTMENT AWARE, UNDER PRESENT SAFEGUARDS FINANCING FORMULA, MEMBER STATES ENTITLED TO RELIEF ARE THOSE HAVING PER CAPITA NET NATIONAL PRODUCTS LESS THAN ONE-THIRD OF THE AVERAGE PER CAPITA NET NATIONAL PRODUCT OF THE TEN MEMBERS HAVING THE HIGHEST PER CAPITA NET NATIONAL PRODUCT (GC(XV)/RES/283). AGENCY RANKS MEMBERS IN ORDER OF MAGNITUDE OF PER CAPITA NET NATIONAL PRODUCT ON BASIS OF INFO IT RECEIVES FROM UN COMMITTEE ON CONTRIBUTIONS, WHICH COMPILES ITS DATA EVERY

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ACTION IO-11

INFO OCT-01 ISO-00 IOE-00 ACDA-05 CIAE-00 INR-07 L-03

NSAE-00 NSC-05 EB-07 NRC-05 OES-03 FEAE-00 DODE-00

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P 121448Z JAN 76

FM USMISSION IAEA VIENNA
TO SECSTATE WASHDC PRIORITY 6891
INFO USERDA GERMANTOWN PRIORITY

C O N F I D E N T I A L SECTION 2 OF 2 IAEA VIENNA 0189

THREE YEARS FOR USE IN THE FOLLOWING THREE YEARS.
AGENCY'S CURRENT SCALE OF ASSESSMENTS BASED ON THIS DATA
IS APPLICABLE TO YEARS 1975 THROUGH 1977. NEW
RANKING WHICH WILL BE UNDERTAKEN BY UN IN 1977 WILL
BE APPLIED TO AGENCY ASSESSMENTS FOR THE YEARS
1978 THROUGH 1980. AT THAT TIME (1978), WE CAN
EXPECT AN ENTIRELY NEW RANKING WITH A NEW "UPPER
THRESHOLD" (ONE-THIRD AVERAGE PER CAPITA NET
NATIONAL INCOME OF TOP TEN). THUS, A MEMBER STATE
(E.G., AN OIL PRODUCER) WHOSE ECONOMIC POSITION
WILL HAVE IMPROVED SUFFICIENTLY DURING THE PREVIOUS
THREE YEARS WILL AUTOMATICALLY FIND ITSELF LIABLE
TO ASSESSMENT AT THE FULL RATE. NO MEMBER STATE,
THEREFORE, CAN EXPECT A PERMANENT "RIGHT" TO RELIEF.

7. BASED ON OUR DISCUSSIONS WITH HIM, WE BELIEVE
SIAZON CAN ACCEPT THIS ARRANGEMENT AND, BY VIRTUE
OF HIS LEADERSHIP OF THE LDC MEMBER STATES, CAN
PERSUADE OTHER SAFEGUARDS FINANCING CRITICS TO GO
ALONG AS WELL. MISSION BELIEVES FOREGOING
ARRANGEMENTS MERIT DEPARTMENT'S FAVORABLE AND
PROMPT CONSIDERATION. IT IS OF COURSE RECOGNIZED
THAT THIS SYSTEM WOULD MEAN THAT THE US - AND
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OTHERS - WOULD FACE SOMEWHAT HIGHER SAFEGUARDS
ASSESSMENTS THAN WOULD OTHERWISE BE THE CASE.
ON THE OTHER HAND, MISSION CONSIDERS THE ADVANTAGES
THESE ARRANGEMENTS WOULD GIVE US TO BE WELL WORTH
THE COST, FOR THEY WOULD HOPEFULLY NOT ONLY FORESTALL THE
RECONVENING OF THE SAFEGUARDS COMMITTEE, WHICH QUITE
ASIDE FROM RESULTING COSTS IN MONEY AND MAN-HOURS,
WOULD THROW DEBATE TO OPEN HIGHLY UNHELPFUL AND DIVISIVE
DISCUSSION ON FUNDAMENTAL SAFEGUARDS ISSUES, BUT
THEY WOULD ALSO HELP TO DEFUSE A CONTENTIOUS ISSUE
WHICH HAS PLAGUED AGENCY MEETINGS FOR SEVERAL YEARS.

8. WE SHOULD NOT LOSE SIGHT OF THE FACT THAT WE
ARE ENTERING A PERIOD OF THE AGENCY'S HISTORY IN
WHICH MEMBERS WILL BE ASKED TO CONSIDER A NUMBER
OF SAFEGUARDS ISSUES WHICH WILL OFFER CRITICS OF
SAFEGUARDS ALL SORTS OF OPPORTUNITIES TO ATTACK
THEM, WHETHER THEY INVOLVE FINANCING, AGENCY
SAFEGUARDS STAFFING OR THE MANNER OF SAFEGUARDS

IMPLEMENTATION. IN THE NEAR TERM, THE BOARD WILL BE FACED WITH THE QUESTION OF IMPLEMENTING THE US AND UK VOLUNTARY OFFERS WITH THEIR OBVIOUS IMPLICATIONS FOR THE AGENCY'S SAFEGUARDS BUDGET. SUPPORT FOR THE UK INITIATIVE ON SAFEGUARDS AGREEMENTS, SCHEDULED FOR THE FEBRUARY BOARD, IS ALREADY BEING HELD BY SOME AS CONTINGENT UPON A NEW FINANCING SYSTEM. AS NEW PROPOSALS ARE ADVANCED, BOTH WITHIN THE AGENCY CONTEXT AND OUTSIDE OF IT, FOR THE STRENGTHENING AND IMPROVEMENT OF AGENCY SAFEGUARDS, DISCONTENT AMONG THE LDC'S WITH REGARD TO THEIR SHARE OF SAFEGUARDS EXPENSES CLEARLY WILL NOT BE HELPFUL TO OUR EFFORTS TO PERSUADE THEM TO SUPPORT OR ACQUIESCE IN THESE PROPOSALS. AN ADDITIONAL ADVANTAGE TO THE FINANCING SCHEME PROPOSED ABOVE IS THAT THE AGENCY'S SAFEGUARDS PROGRAM WOULD NO LONGER EASILY BE HELD HOSTAGE TO DEMANDS FOR AN EVER-GROWING TARGET FOR VOLUNTARY CONTRIBUTION FOR TECHNICAL ASSISTANCE. FINALLY, IT SHOULD BE NOTED THAT THE PROPOSED ARRANGEMENTS, IF ACCEPTABLE TO SIAZON'S LDC COLLEAGUES, WOULD MAINTAIN THE BASIC US PRINCIPLE THAT ALL RPT ALL AGENCY MEMBERS PAY CONFIDENTIAL

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SOMETHING TOWARD THE SAFEGUARDS PROGRAM; INDEED, 32 MEMBER STATES NOW PAYING LESS THAN \$1,000 (CURRENT MINIMUM IS \$754 PER ANNUM) WOULD HAVE TO INCREASE THEIR CONTRIBUTIONS TO THAT FIGURE.

9. IF DEPARTMENT CONCURS, WE SHALL HAVE TO MOVE SWIFTLY TO ENLIST SUPPORT. NEW FINANCING ARRANGEMENTS, IN ORDER TO BE APPROVED BY TWENTIETH GC THIS FALL, SHOULD BE CONSIDERED BY THE ADMINISTRATIVE AND BUDGET COMMITTEE IN APRIL AND, HENCE, FIRST BY THE BG MEETING FEBRUARY 24.

10 REQUEST DEPARTMENT VIEWS ASAP. LABOWITZ

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